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C O N F I D E N T I A L SECTION 01 OF 03 TASHKENT 001324

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TAGS: [PREL](#) [ECON](#) [ENRG](#) [EAIR](#) [KNNP](#) [JO](#) [RS](#) [UZ](#)
SUBJECT: SERGEI IVANOV TALKS BUSINESS WITH THE UZBEKS

REF: A. TASHKENT 438
[1](#)B. TASHKENT 1302

Classified By: CDA Brad Hanson for reasons 1.4 (b) and (d).

Summary

[1](#)1. (C) Russian First Deputy Prime Minister Sergei Ivanov's visit to Tashkent focused primarily on resolving issues in the Russia-Uzbekistan commercial relationship. Although trade turnover is increasing, the growth is primarily due to large oil and gas projects while other Russian business continues to have difficulties, including with currency conversion. Ivanov again pressed the Uzbeks to integrate the Chkalov Aircraft Factory into a newly created Russian aircraft manufacturing consortium. The two sides agreed to task a plan to upgrade 400 km of oil and gas pipelines within Uzbekistan, the cost of which is still being calculated, and also discussed the possibility of Uzbekistan joining a newly created international uranium enrichment center in Russia. Although less frustrated with the Uzbeks than following Prime Minister Fradkov's March visit, the Russians continue to face many of the same business problems as the rest of the international community and are realistic about the probability of the situation changing in the near future.
End summary.

[1](#)2. (C) Russian Ambassador Farit Mukhametshin gave the Charge a readout of Russian First Deputy Prime Minister Sergei Ivanov's July 3-4 working visit to Tashkent. Like Prime Minister Mikhail's Fradkov's March visit (ref A), Ivanov's visit focused primarily on bilateral economic issues. The Russian Ambassador characterized Ivanov's meeting as focused on trying to resolve specific, and lingering, issues. In addition to the economic talks, Mukhametshin confirmed that Russia and Uzbekistan signed three labor migration agreements during the visit (ref B). During his two-day visit, Ivanov met with Prime Minister Shavkat Mirziyaev, Deputy Prime Minister Rustam Azimov, and Minister of Foreign Economic Relations Eliyor Ganiev.

[1](#)3. (C) Press reports had portrayed Ivanov's visit as a meeting of a Russia-Uzbekistan joint economic working group. Mukhametshin said this was not the case, but that President Putin recently had elevated the importance of the commission by naming Ivanov as the Russian co-chair. In addition, Russian membership on the commission had been expanded to include the heads of nearly all of the major Russian companies doing business in Uzbekistan, including most prominently Lukoil and Gazprom. Mukhametshin said that President Karimov responded to the Russian move by naming Prime Minister Mirziyaev as the Uzbek co-chair, Deputy Prime

Minister Azimov as his deputy, and several other ministers, including Ganiev, to the panel. The Russian Ambassador said that Ivanov's trip was a first meeting between the new co-chairs; the full commission will meet next near the end of 2007 in Tashkent.

Business Climate

¶4. (C) Mukhametshin said that much of Ivanov's visit was devoted to the bilateral commercial relationship. Trade turnover between Russia and Uzbekistan was growing 50 percent each year, he claimed, and had reached \$3 billion in 2006. Over 90 percent of the annual increase, however, is mostly due to large projects in the oil and gas sectors, while small and medium enterprises accounted for only 10 percent of the growth. Mukhametshin said that Ivanov discussed bottlenecks to trade, including Uzbek customs regulations which delay goods at the border for months at a time, and "creative" calculation of import fees on Russian goods. Mukhametshin agreed with the Charge that these bottlenecks should not exist since Uzbekistan joined the Eurasian Economic Community (EURASEC), but noted that to date Uzbekistan had ratified only about a third of the EURASEC agreements.

¶5. (C) Mukhametshin said that Ivanov raised again the difficulties faced by Russian companies with currency conversion, which he said is a problem across the board but especially for small and medium enterprises outside of Tashkent. He noted that the Russians have raised the issue with the Uzbeks on multiple occasions, including during Fradkov's visit and in meetings of a Russian-Uzbek joint

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working group on the economy co-chaired by Ivanov and Mirziyayev. Each time it is discussed, he said, the Uzbeks promise to fix the problem and do occasionally provide help in individual cases. Then, just prior to Ivanov's visit the Uzbeks provided conversion for several Russian companies which had been waiting for several months. Mukhametshin confirmed the Russian Embassy sent a diplomatic note raising the problem and listing a number of major Russian companies awaiting convertibility. (Note: The full text and picture of which appeared on www.uzmetronome.com just after Ivanov's visit. End note.) According to the Russian Ambassador, the Uzbeks told Ivanov that the Russian Embassy should continue to inform the Ministry of Foreign Affairs about specific problems. The Russian Ambassador pointed out the Uzbek are only hurting themselves as many Russian companies, including the cell phone company Beeline, want to convert soum for hard currency to buy equipment to expand their operations in Uzbekistan.

Aircraft Manufacturing

¶6. (C) Mukhametshin said that Ivanov pressed the Uzbeks to integrate the Chkalov Aircraft Factory (a.k.a. TAPOiCh) on the outskirts of Tashkent into a newly created Russian aircraft manufacturing consortium. (Note: Integration of TAPOiCh into the wider world of Russian aircraft manufacturing was also on Fradkov's agenda in March. End note.) He reminded Charge that TAPOiCh remains wholly dependent on parts from Russia. Integration into the Russian system would result in refurbishment and updating of outdated technology currently in use, more orders for both IL-76 and IL-114 aircraft, and an increase in the TAPOiCh's overall value. TAPOiCh is the only facility outside of Russia that has been invited to join the consortium so far; however, Mukhametshin said that although the Uzbeks would have input into the consortium's operations, overall control would remain in Russian hands. Mukhametshin confirmed press reports that Jordan recently ordered two IL-76 military cargo aircraft from TAPOiCh and said that Russian cargo companies

still buy a few planes. However, he said, these orders are nothing compared to what the plant would get if it were part of the Russian system.

Energy

17. (C) The need to upgrade oil and gas pipelines in Central Asia was also on the Russian agenda. Mukhametshin said that existing pipelines are 40 years old, already a decade past their original life span and in desperate need of refurbishment. Ivanov and Mirziyayev jointly tasked the development of an upgrade plan for the 400 km of pipeline in Uzbekistan, utilizing both Russian and Uzbek capital. He said that the cost of the upgrades was being calculated. Russia also is talking to Kazakhstan and Turkmenistan about upgrades to portions of pipelines running through those countries.

18. (C) Rosatom director Kiriyaenko was included on Ivanov's delegation specifically so that the possibility of Uzbekistan joining an international uranium enrichment center in Angarsk, Russia could be discussed. The Russian Ambassador portrayed this center as part of joint U.S.-Russian nonproliferation efforts. Mukhametshin said that the Uzbeks seemed interested, and that Russia expects a positive response soon. He said that while the details would have to be worked out, he expected that Uzbekistan would retain possession of uranium enriched in Russia while paying a fee to the center. The arrangement would benefit Uzbekistan, he said, because it would be able to command a higher sales price for enriched uranium than it currently gets for selling unprocessed ore. Selling raw uranium to Russia might be a future option, he said, but it is unlikely in the near future because of Uzbekistan's existing uranium contracts. (Note: The existing contracts obligate Uzbekistan to sell the majority of its uranium to U.S.-based Nukem, Inc. End note.)

Comment

19. (C) Mukhametshin was very frustrated with the Uzbeks following Prime Minister Fradkov's visit in March. Some of the frustration remains, especially when the Russian

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Ambassador talked about continuing problems with currency conversion. Despite progress in a few key areas, the Russians face the same problems doing business here as the rest of us and are realistic about the probability of the business climate improving significantly in the near future.
HANSON